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ZNR UUUUU ZZH
R 291907Z MAY 08
FM AMEMBASSY KINGSTON
TO RUEHC/SECSTATE WASHDC 6397
INFO RUCNCOM/EC CARICOM COLLECTIVE
RUEHBR/AMEMBASSY BRASILIA 0104
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RUEATRS/DEPT OF TREASURY WASHDC

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SIPDIS
SENSITIVE

STATE FOR WHA/CAR (JTILGHMAN) (VDEPIRRO)
WHA/EPSC (LKUBISKE)
EEB/ESC/IEC (GGRiffin)
EEB/TPP/IPE (JHALLOCK)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW

E.O. 12958: N/A

TAGS: [ENRG](#) [EAIR](#) [EINV](#) [SENV](#) [ECON](#) [ETRD](#) [KIPR](#) [IBRD](#) [IMF](#) [TRSY](#)

XL, JM

SUBJECT: JAMAICA: MAY ECONOMIC REVIEW

REF: A) KINGSTON 021
B) KINGSTON 427
C) KINGSTON 263
D) KINGSTON 363

11. SUMMARY:

-- Air Jamaica may face more labor problems, as the Government of Jamaica (GOJ) says airline workers will not receive a pay increase this year and workers threaten to strike.

-- The Energy Minister looks to roll out ethanol-based fuel to consumers and the Finance Minister lowers taxes on fuel efficient cars.

-- Consulting firm KPMG will assess the potential for creating an international financial services center in Kingston, and the Minister of Commerce and Industry predicts he can cut in half the time that it takes to export goods from Jamaica.

-- Jamaica will establish an Embassy in Brazil, as the two countries improve economic and political ties.

-- Tourism figures are on the rise, even as the GOJ is embroiled in a dispute with major Spanish investors in the hotel sector.

-- The GOJ has stepped up arrests of those selling pirated DVDs and the Jamaican Intellectual Property Office has embarked on a two-year project to strengthen Geographic Indications.

-- The dubious Caribbean Real Estate Investment Fund collapsed, and Cash Plus faces lawsuits from those who lost money in the failed investment scheme.

-- The International Monetary Fund released its report on Jamaica indicating the island faces a difficult global environment and increased socio-economic challenges.

END SUMMARY

Aviation/ Air Jamaica/ Transportation

12. (SBU) Labor unrest is likely at Air Jamaica in the wake of the sudden postponement of a meeting scheduled for May 22 to discuss the contentious issue of wage increases for employees. At a time when the GOJ is trying to divest itself of the beleaguered airline, unions are seeking a 15 percent pay increase. The meeting postponed until June 10, is intended to look at ways in which Air Jamaica can

cut costs and possibly use the savings to raise workers pay. Minister Without Portfolio Senator Don Wehby, from the Ministry of Finance and Public Service, announced that Air Jamaica staff would not be given a pay increase because of the ongoing financial problems at the airline (reftel A). Losses reached nearly USD 173 million in 2007. Employees of Air Jamaica threatened on May 26 to engage in wildcat strikes if there is no word in the next two weeks from the airline's management regarding their demand for a new wage package. COMMENT: As Air Jamaica continues to incur losses, a strike may work to the advantage of the GOJ. The strike could provide justification for firing excess Air Jamaica staff, which would better position the airline for private sector purchasers.

Environment/ Renewable Energy/ Energy

13. (U) On May 16 Clive Mullings, Minister of Energy, announced he is seeking legislative approval for an ethanol-based fuel (E10) plan for a roll out date of October 2008 to make E10 available to consumers. Jamaica is looking for a supplier of equipment needed to dispense E10 at local gas stations. The GOJ anticipates the move will cut more than USD 30 million annually from its energy bill. The initiative will require the state refinery Petrojam to retrofit its loading and storage facilities as well as fuel pumps at gas stations. Jamaica's annual costs for imported fuel could reach USD 3.5 billion if rates stay above USD 130 per barrel. Demand is growing at a rate of four percent per year. As world oil prices continue to rise, the introduction of 10 percent ethanol is one of several initiatives to reduce Jamaica's dependence on crude imports.

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14. (U) Finance Minister Audley Shaw announced on May 10 that the GOJ will remove the Special Consumption Tax on small motor vehicles (those with engines smaller than 1,000 cubic centimeters) and introduce escalating levels of tax according to a vehicle's fuel consumption level. The GOJ also will implement a 10 percent tax reduction on diesel vehicles. Shaw told reporters from the Gleaner newspaper, "Every step of the way we intend to put in policies that are going to be supportive of energy conservation." He added that a comprehensive conservation policy would be rolled out later in 2008, to include a 15 percent reduction in GOJ offices, with an "energy czar" in each ministry to monitor consumption.

Foreign and U.S. Investment

15. (U) The GOJ has contracted with the consultancy and auditing firm KPMG to assess the potential for establishing an international financial services center in Jamaica. Minister Without Portfolio Don Wehby discussed the program on May 13 at the monthly investors forum held by Mayberry Investments and attended by Emboffs. The GOJ's Jamaica Trade and Invest office will work with KPMG to meet with public and private sector stakeholders to assess the viability of the plan. The GOJ hopes to have the assessment completed by mid-July. The GOJ has been trying to diversify the economy away from agriculture, bauxite and tourism, and hopes that financial services will be an option.

16. (U) A World Bank study on doing business in Jamaica reported that it takes up to 21 days for products to be exported from the country--compared to five days in Singapore, six days in the U.S., and nine days in Panama. In response, Minister of Industry, Investment, and Commerce Karl Samuda announced on May 22 that he will work to remove the bureaucratic and other associated challenges which delay Jamaican exports. Samuda predicted he could cut export times in half within the next two years, adding that this would give Jamaican businesses a chance to grow and develop.

17. (U) On May 21 the GOJ announced it will establish an embassy in Brazil as Jamaica continues to strengthen economic and political ties between the two countries. Prime Minister Bruce Golding said he held talks with Brazilian President Lula da Silva about deepening

areas of cooperation during the recent European Union, Latin American and the Caribbean summit in Peru. Brazil has taken a particular interest in Jamaica's failed sugar estates. The Brazilian firm Infinity BioEnergy was the sole bidder for the assets of the Sugar Company of Jamaica (SCJ), which owns Bernard Lodge, Monymusk, Frome, Hampden, and the Saint Thomas sugar factories. The GOJ is expected to absorb the estimated USD 225 million in debt held by SCJ. The GOJ is hoping to complete the privatization efforts with Infinity by June.

Tourism Sector

¶ 18. (SBU) A regulatory violation relating to construction of a fourth floor of a Spanish-owned hotel in Montego Bay has escalated into a public backlash against Spanish investors (reftel B). The GOJ called for an investigation of an extra floor on a hotel being built by the RIU Hotels and Resorts which the GOJ claims is a breach of RIU's building permit. The GOJ also contends that the unauthorized fourth floor is in the flight path of aircraft landing at Sangster International Airport. Prime Minister Bruce Golding told reporters that the Police Fraud Squad would be called to investigate after a "revised plan" allowing for the fourth floor was found to have been signed by a St. James Parish Council official.

¶ 19. (SBU) The dispute quickly gained traction in the press and among popular opinion as Jamaicans accused Spanish investors of disrespecting local laws and Jamaican rights. Editorials in the local press criticized the investors, including a column by John Maxwell entitled "WE ARE NOT FOR SALE." Surprisingly, GOJ officials appear to have jumped on the bandwagon. The response from the GOJ over a regulatory issue which would usually be dealt with on an administrative level may have a chilling effect among some foreign investors (reftel B). The Gleaner newspaper reported that at least one Spanish investor, Excellence Group, is putting plans to construct a 2,000 room hotel on hold until they can better assess the country's investment climate. COMMENT: Given the effort of the GOJ to attract foreign investment particularly Spanish hotel firms,

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it is surprising that they allowed this dispute to escalate to the national level. Butch Stewart, the owner of Sandals resort, a competitor of Spanish-owned firms, also owns the Observer newspaper, which may explain that newspaper's coverage portraying the Spanish in a negative light. END COMMENT. Daryl Vaz, State Minister in the Office of the Prime Minister, met with officials at the Spanish Embassy in an effort to quell investors' fears. Spanish Ambassador Jesus Silva told the Gleaner newspaper on May 18 that "Spanish investments in tourism have provided 12,000 direct and 30,000 indirect jobs, accounting for the largest job creation process in Jamaica's recent history."

¶ 10. (U) The Tourism sector remains robust despite the economic slowdown in the U.S. Over 70 percent of visitors to Jamaica are from the U.S., and preliminary data from Jan-March 2008 shows an eight percent increase in the number of arrivals. Jamaica and the Caribbean remain one of the most price-competitive destinations, and Jamaica's competitiveness has increased as its currency has slid evenly with the weakening U.S. dollar. There has been an increase in visitors from Canada as its currency appreciates against the U.S. and Jamaican dollars.

Budget / Tax Revenue

¶ 11. (U) The Ministry of Finance and the Public Service is reporting a strong response to the tax amnesty initiated in April. Minister Audley Shaw said USD 29 million already has been collected. The amnesty continues until October, but the amount of the penalties and taxes to be forgiven declines with each successive month (reftels C and D). The amnesty is part of Shaw's bold efforts to reform the tax system and improve revenue collection.

¶ 12. (U) On May 19 the rating agency Standard & Poor's (S&P)

reaffirmed Jamaica's "B" rating for long-term and short-term sovereign debt. The report noted that the outlook remains stable and credits the GOJ's commitment to fiscal discipline, debt reduction, and economic growth reinvigoration. The report states that Jamaica's real GDP growth, which averaged 1.6 percent over the past decade, continues to be constrained by a crowding out of the private sector because of the government's high borrowing needs, labor-market rigidities affecting productivity, high security costs, and external shocks.

Intellectual Property Rights

¶13. (U) The GOJ has stepped up its crack down on pirated DVDs. On May 20 police arrested 12 people accused of selling pirated copies of DVDs in the Half Way Tree section of Kingston. Those arrested were charged with breaches of the Copyright Act. The Head of the Organized Crime Division Superintendent Fitz Bailey told reporters from the Gleaner newspaper that "the police are taking a zero tolerance approach to this type of crime and would be stepping up the pressure." Three of the persons arrested were repeat offenders.

¶14. (U) On May 26-30, the Jamaica Intellectual Property Office (JIPO) hosted the visit of Felix Addor, the Deputy Director General of the Swiss Federal Institute of Intellectual Property (IPI). Mr. Addor's visit is part of the official launch of the Geographic Indications (GI) Project in Jamaica. The two-year project was provided USD 730,000 by IPI to establish a functional and effective protection system for GIs in order to contribute to a better positioning of Jamaican products in international markets. The GOJ passed the Protection of Geographic Indications Act in February 2004 which established the legal framework for the protection of products designated under the GIs regime. Emboffs attended the launch, at which JIPO Executive Director Carol Simpson said she hopes the project will create awareness of the importance of GIs in Jamaica and in contributing to the economic success of genuine Jamaican products.

Alternative Investment Schemes

¶15. (U) The Caribbean Real Estate Investment Fund (CARIEF), one of the alternative investment schemes being investigated by the

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Financial Services Commission, collapsed on May 6. The scheme, created by CEO Anthony Tharpe in 2005, promised financial returns from real estate investments of 100 to 1000 percent over a three-year period. CARIEF had about 70 members who paid a USD 1,200 membership fee, as well as more than 60 investors who provided a minimum investment of USD 2,800. Some investors appear to have provided sums as high as USD 250,000. CAREIF solicited investments from members of the Jamaican Diaspora in North America.

¶16. (U) Lawsuits are being filed against the failed Cash Plus alternative investment scheme and its CEO Carlos Hill. Hill and his brother Bertram were granted bail and released from prison on May 3. The Gleaner newspaper reported on May 25 that Miami-based law professor David Rowe has filed a USD 1.7 million suit against Cash Plus and Carlos Hill. On May 22 Jamaican Justice Donald McIntosh ordered Hill to disclose his assets by June 19 or face six weeks in jail. Hill also is being sued by Kingston businessman Alexander Haber for USD 420,000. Recovery of any substantial amount of funds is unlikely. The court-appointed receiver has found that Cash Plus was not operating as a legitimate financially viable entity. The scheme has only USD 42,000 in cash and will only be able to pay a maximum of 16 cents on the dollar to its creditors. The receiver also discovered that Cash Plus used 70 per cent of the funds it took in overall to pay interest to investors in order to keep the pyramid scheme going. The scheme appears to have had between 35,000 and 45,000 individual investors (reftels C and D).

Multilateral Donors

¶17. (U) On May 13 the International Monetary Fund (IMF) released its report on Jamaica. The IMF report indicates that a difficult global environment is contributing to increased socio-economic challenges for Jamaica. The report said this environment includes natural disasters, the global economic slowdown, and increases in global oil and food prices. The IMF says these factors have contributed to slower economic growth, rising inflation and a widening current account deficit. The report also said that the growth of unregulated investment schemes promising implausibly high rates of return is a worrisome financial development with potentially adverse macroeconomic consequences.

JOHNSON